Canada Revenue Agency: Are You Financially Ready to Retire?

Description

The Canada Revenue Agency isn’t going to stop collecting income taxes from you when you retire. As long as you earn income, you will be taxed more or less.

Canada Revenue Agency: What has no income tax?

Your RRSP/RRIF withdrawals, CPP pension payments, and OAS payments are all taxable income. GIS payments are not taxable. Your TFSA withdrawals are also not taxable.

Some retirees who started making minimum withdrawals from their RRIFs but don’t need to spend the entire amount can put the excess in their TFSA for tax-free growth.

Are you financially ready to retire?

A lot of people used to aim for $1,000,000 as the magic number for retirement. They think that once they become a millionaire, they will have enough to spend for the rest of their lives. As I’ll show below, you might not even need this much to retire.

In any case, life expectancy is as long as ever. So, you could easily have 10-30 years or longer of retirement life to enjoy. You don’t want to run out of money in that duration!

The most conservative way to ensure you have enough money to spend for the rest of your life is to continue growing your assets and generate sufficient income from your assets to spend on. Ideally, your assets should generate enough income to cover all your expenses.

Some expenses in retirement could include property tax, home insurance, home maintenance, rent, gas, hydro, electricity, groceries, phone, internet, entertainment, subscriptions, travelling, healthcare, gifts, donations, etc.

After adding up the expenses that you expect to incur in a year, divide the number by 12 to determine your average monthly expenses. If you can cover that amount with the income (ideally with a buffer) from your assets, you can consider retiring.

Where to get juicy income today

Retirees or soon-to-be retirees want to preserve their hard-earned savings while generating ample income for their spending needs. Right now, interest rates are too low. The best five-year GIC rate is 2%.

Capital preservation? Check. Ample income generation? Nuh-uh.

As a result of low interest rates, retirees are forced to seek greater income from the stock market. Thankfully, there's an abundance of safe dividend stocks that offer yields of 5% or greater. For example, you can explore **Enbridge**, **Bank of Nova Scotia**, **TELUS**, **H&R REIT**, and **Capital Power** to see if they're good fits for your portfolio. Currently, they offer yields of 8.3%, 5.8%, 5%, 5.1%, and 6.5%, respectively. Importantly, these stocks are either fairly valued or discounted.

If you have an investment horizon of at least five years for these investments, you're likely to experience price appreciation while collecting some very nice income for spending.

On a $1,000,000 equal-weight portfolio, one would invest $200,000 in each stock and earn a portfolio yield of 6.1% for $61,000 of annual income. These names pay out eligible dividends that are favourably taxed for Canadians. But, of course, if you have room in your TFSA, you should invest there for tax-free income and growth.

Let's not forget you're probably getting CPP or OAS payments as well. So, $61,000 of passive income a year may be more than you need.

The Foolish takeaway

You don't necessarily need $1,000,000 to retire. Everyone's income needs are different. How much you need depends on the kind of retirement lifestyle you want.

After you estimate your annual expenses, you might be surprised by how much you're spending per month. In any case, the stock market is offering some very special income opportunities. And that's certainly worth exploring, as it can push ahead your retirement date!

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kayng